

Decision **PROPOSED DECISION OF ALJ FORTUNE** (Mailed 4/12/2019)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of  
San Diego Gas & Electric Company  
(U902M) for Authority to Expand  
its Short-Term Borrowing  
Authorization to an Aggregate  
Amount Not to Exceed \$575,000,000  
in Addition to that Amount  
Otherwise Authorized by Public  
Utilities Code Section 823 (c).

Application 19-01-010

**DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO  
EXPAND ITS SHORT-TERM BORROWING AUTHORITY**

**Summary**

This decision authorizes San Diego Gas & Electric Company (SDG&E) to expand its short-term borrowing authority by an amount not to exceed \$575 million pursuant to Public Utilities Code Section (Pub. Util. Code §) 816 *et seq.* The short-term debt authorized by today's decision is in addition to the short-term debt that SDG&E may issue without Commission approval pursuant to Pub. Util. Code § 823(c).

SDG&E's short-term borrowing authorization will be used to maintain its financial options for securing adequate temporary financing for: (1) balancing account under-collections, (2) retirements, tenders, calls or other debt refunding,

(3) bridge financing during potential financial market disruptions, (4) financing for its nuclear fuel investments and customer commodity hedge cash requirements, and (5) to satisfy such short-term cash needs that may emerge over time.

These purposes are integral to SDG&E's responsibility under Pub. Util. Code § 451 to "furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."

The authority granted by today's decision will become effective when SDG&E pays a fee of \$293,500 pursuant to Pub. Util. Code § 1904 (b), and will expire on December 31, 2023.

This proceeding is closed.

## **1. Background**

San Diego Gas & Electric Company (SDG&E) filed Application (A.) 19-01-010 on January 23, 2019. Notice of A.19-01-010 appeared in the Commission's Daily Calendar on January 25, 2019. There were no protests or responses to this application.

In Resolution ALJ 176-3431, dated January 31, 2019, the Commission preliminarily determined that the category for this proceeding is ratesetting and that a hearing is needed. A prehearing conference (PHC) was held on March 12, 2019 pursuant to Rule 7.2(b) of the Commission's Rules of Practice and Procedure (Rules). During the PHC parties agreed that there is no need for hearing and this was reflected in the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) issued on March 21, 2019, pursuant to Rule 7.3(b).

The record of this proceeding consists of A. 19-01-010, including the information, schedules, and appendices contained in the application.

All assigned Commissioner and Administrative Law Judge (ALJ) rulings are affirmed herein.

## **2. Jurisdiction**

SDG&E's existing authority to issue short-term debt<sup>1</sup> is provided by Decision (D.) 15-08-015 and Pub. Util. Code § 823(c). Decision 15-08-015 authorized SDG&E to issue \$400 million of short-term debt through December 31, 2019. The short-term debt authorized by D.15-08-015 is in addition to the short-term debt that SDG&E may issue without Commission approval pursuant to Pub. Util. Code § 823(c), which states as follows:

Notwithstanding the provisions of [§ 823(b)], no public utility... shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance... would exceed in aggregate amount five percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for the purposes of this subsection shall be the fair market value as of the date of issue.

SDG&E represents that as of September 30, 2018, it had authority to issue \$273 million of short-term debt pursuant to Pub. Util. Code § 823(c) without approval from the Commission. Thus, the sum of SDG&E's existing authority to issue short-term debt is \$673 million (\$400 million + \$273 million) with \$400 million of that authority expiring on December 31, 2019.

---

<sup>1</sup> For the purpose of today's decision, "short-term debt" is defined as debt that has a maturity of less than one year at the time of issuance.

**3. Issues Before the Commission**

In A.19-01-010, SDG&E requests authority, pursuant to Pub. Util. Code § § 701, 702, and 816 – 830, which:

1. Authorizes SDG&E to issue up to \$575 million of short-term debt anytime through December 31, 2023, in addition to SDG&E's authority to issue short-term debt pursuant to § 823(c).
2. Determines that SDG&E is required to pay a fee of \$293,500 pursuant to Pub. Util. Code § 1904(b) for authority to issue \$575 million of short-term debt.

**4. Discussion**

SDG&E requests authority to issue \$575 million of short-term debt for temporary cash needs that may arise over time. Such uses may include (1) availability of cash if long-term capital markets become difficult to access; (2) to bridge the cyclical fluctuations in seasonal cash flows; (3) address regulatory lags in recovering costs in rates; (4) cover under-collections in various balancing accounts; and (6) manage nuclear fuel investments and customer commodity hedge cash requirements.

SDG&E states that it will be investing \$4.2 billion during the 2019 – 2021 time period, which averages to about \$1.4 billion annually. SDG&E proposes to use short-term debt funds:

- 1) As potential bridge financing for capital investments in safety and reliability as well as infrastructure hardening;<sup>2</sup>
- 2) To fund collateral calls related to its customer commodity hedging plan;
- 3) For margin calls<sup>3</sup> for customer hedging (which have been over \$20 million since July 1, 2018);<sup>4</sup>

---

<sup>2</sup> See application at 3

- 4) To cover Nuclear Fuel Investments of \$87 million through 2022 due to the San Onofre Nuclear Generating Station Settlement; and
- 5) To address uncertainty regarding unforeseen market factors.

#### **4.1. Authority to Issue Short-Term Debt**

SDG&E's application for authority to issue \$575 million of short-term debt is subject to Pub. Util. Code §§ 816, 819, 823, and 824, which state as follows:

**§ 816:** The power of public utilities to issue stocks or... bonds, notes, and other evidences of indebtedness... is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.

**§ 819:** The commission may by its order grant permission for the issue of such stocks or... bonds, notes, or other evidences of indebtedness in the amount applied for, or in a lesser amount, or refuse such permission, or grant it subject to such conditions as it deems reasonable and necessary....

**§ 823(a):** No public utility shall, without the consent of the commission, apply any part of the issue of any stock or... bond, note, or other evidence of indebtedness, or any proceeds thereof, to any purpose not specified in the commission's order, or to any purpose specified in the order in excess of the amount authorized for such purpose, or issue or dispose thereof on any terms less favorable than those specified in the order....

(b) A public utility may issue notes, for proper purposes and not in violation of any provision of law, payable at periods of not more than 12 months after the date of

---

<sup>3</sup> Margin calls are demands for additional capital or securities to bring a margin account up to the minimum maintenance required. [www.investopedia.com](http://www.investopedia.com)

<sup>4</sup> See application at 3

issuance of the notes without the consent of the commission.

(c) Notwithstanding the provisions of subdivision (b), no public utility... shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes... would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for... this subsection shall be the fair market value as of the date of issue.

(d) No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks... or bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

**§ 824:** The commission may require public utilities to account for the disposition of the proceeds of all sales of stocks... and bonds, notes, and other evidences of indebtedness, in such form and detail as it deems advisable... to insure the disposition of such proceeds for the purposes specified in its order.

The above-cited provisions in the Public Utilities Code provide the Commission with broad discretion to (1) determine if a utility should be authorized to issue short-term debt in excess of the amount authorized by Pub. Util. Code § 823(c), and (2) attach conditions to the issuance of short-term debt in order to protect and promote the public interest.

We find that it is reasonable to grant SDG&E's request for authority to issue \$575 million of short-term debt in excess of the amount authorized by Pub. Util. Code § 823(c). SDG&E has large, ongoing cash expenditures that must be funded at all times so that SDG&E can provide essential utility services to the

public.<sup>5</sup> The \$575 million of short-term debt authorized by today's decision will help ensure that SDG&E can fund utility cash expenditures without interruption.

SDG&E shall use the short-term debt authorized by today's decision only for utility-related purposes. Such purposes include, but are not limited to utility expenses such as temporary financing for capital expenditures, balancing account under-collections, margin calls on commodity hedges, and nuclear fuel inventory.

SDG&E shall not use the short-term debt authorized by today's decision to fund dividends, provide loans or cash to affiliates, or pay management fees to its parent company or other affiliates. Consistent with Pub. Util. Code § 824, SDG&E shall maintain records that (1) identify the specific short-term debt issued pursuant to today's decision, and (2) demonstrate that the proceeds from such debt have been used only for the purposes authorized by today's decision.

Today's decision provides new authority to SDG&E to issue short-term debt beginning January 1, 2020. SDG&E's authority to issue short-term debt pursuant to today's decision shall expire on December 31, 2023.

#### **4.1.1. Other Regulatory Requirements**

General Order (GO) 24-C requires public utilities that issue debt or equity to file a semiannual report with the Commission that includes the following information for the applicable semiannual period:

- 1) A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each

---

<sup>5</sup> SDG&E is investing \$4.2 billion during the 2019 - 2021 time period (A.19-01-010, Attachment D Schedule I). SDG&E's net utility plant as of September 30, 2018, was \$14.1 billion. (Attachment B) SDG&E forecasts that its annual capital investments will average \$1.4 billion during the three-year period of 2019 - 2021 (A.19-01-010 at 3).

issuance, and the net proceeds received for each issuance.

- 2) The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.
- 3) The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
- 4) The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be reported in a way that allows the Commission to ascertain the utility's compliance with Pub. Util. Code § 817 and the related authorizing decision.

In addition to the previously enumerated reporting requirements, GO 24-C requires utilities to maintain records which demonstrate that the proceeds from the issuance of debt and equity have been used in a manner authorized by the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

#### **4.1.2. Ratemaking**

Today's decision does not approve (1) the rates, terms, and condition for the short-term debt authorized by today's decision; or (2) the costs, expenditures, and capital projects that may be financed with the authorized short-term debt. The Commission will review these matters in general rate case proceedings, capital project-specific proceedings, or other proceedings. Based on these reviews, the Commission will determine whether the cost of the short-term debt (e.g., interest paid on the debt), and the costs, expenditures, and capital projects that are financed with such debt, are reasonable and may be recovered in rates.



**4.1.3. Fee Required by Pub. Util. Code § 1904(b)**

Pursuant to Pub. Util. Code § 1904(b), SDG&E shall pay a fee for authority to issue debt, as detailed in the table below. SDG&E shall pay the \$293,500 fee, no later than 30 days from the effective date of this decision. The authority granted by this decision will become effective upon the payment of this fee.

<b>§ 1904(b) Fee for \$575,000,000 of Short-Term Debt</b>		
<b>Amount</b>	<b>Rate</b>	<b>Fee</b>
\$1,000,000	\$2 per \$1,000	\$2,000
\$9,000,000	\$1 per \$1,000	\$9,000
\$565,000,000	\$0.50 per \$1,000	\$282,500
<b>Total Fee:</b>		<b>\$293,500</b>

**5. California Environmental Quality Act**

The California Environmental Quality Act (CEQA) applies to projects that (1) may cause a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and (2) require discretionary approval from a governmental agency, unless exempted by statute or regulation.<sup>6</sup> A project is exempt from CEQA when it can be seen with certainty that the activity in question will not have a significant effect on the environment.<sup>7</sup> The Commission is the lead agency under CEQA with respect to A.19-01-010 and, therefore, must determine if the short-term debt requested in A.19-01-010 is exempt from CEQA.<sup>8</sup>

---

<sup>6</sup> California Public Resources (Cal. Pub. Res.) Code § 21067.

<sup>7</sup> CEQA Guidelines, Title 14 of the California Code of Regulations, Division 6, Chapter 3, Article 20, Section 15061(b)(3). (Hereafter, "CEQA Guidelines".)

<sup>8</sup> Cal. Pub. Res. Code §§ 21065 and 21080(a), and CEQA Guidelines Section 15061(a).

Today's decision does not authorize any capital expenditures, construction projects, or any other activities that might have an effect on the environment. Therefore, it can be seen with certainty that the \$575 million of short-term debt authorized by today's decision will not have a significant effect on the environment. Accordingly, the authorized short-term debt is exempt from CEQA. To ensure compliance with CEQA, SDG&E shall not use the proceeds from the authorized short-term debt to fund any project until the required CEQA review and approval for the project, if any, has been completed.

## **6. Categorization and Need for Hearing**

In Resolution ALJ 176-3431, dated January 31, 2019, the Commission preliminarily determined that the category for this proceeding is ratesetting and that hearings were necessary. Pursuant to the Scoping Memo, the assigned Commissioner determined that a hearing was not needed. We affirm that the category for this proceeding is ratesetting and that a hearing is not needed.

## **7. Comments on Proposed Decision**

This is an uncontested matter in which the decision grants the relief requested. The otherwise applicable 30-day period for public review and comment is usually waived pursuant to Pub. Util. Code § 311(g)(2) and Rule 14.6(c)(2) of the Commission's Rules. However, at the PHC, the Public Advocates Office requested and was granted a review period.

Comments were filed by San Diego Gas & Electric Company on May 2, 2019. No reply comments were filed.

## **8. Assignment of Proceeding**

Michael Picker is the assigned Commissioner for this proceeding and Hazlyn Fortune is the assigned Administrative Law Judge.

**Findings of Fact**

1. SDG&E's authority under D.15-08-015 to issue \$400 million of short-term debt in excess of the amount authorized by Pub. Util. Code § 823(c) expires on December 31, 2019.

2. SDG&E requests authority pursuant to Pub. Util. Code §§ 701, 702, and 816-830 to issue \$575 million of short-term debt through December 31, 2023, to finance capital expenditures, nuclear fuel inventory, commodity hedges, maturing long-term debt, and other utility-related cash needs that may arise from time to time.

3. There were no protests or responses to A.19-01-010.

4. There are no contested factual issues in this proceeding.

**Conclusions of Law**

1. It is in the public interest to grant SDG&E authority under Pub. Util. Code § 816 et seq., to issue \$575 million of short-term debt through December 31, 2023, for utility-related purposes.

2. The authority granted by this decision to issue \$575 million of short-term debt is in addition to SDG&E's authority to issue additional short-term debt pursuant to Pub. Util. Code § 823(c).

3. GO 24-C applies to SDG&E and the short-term debt authorized by this decision.

4. This decision should not approve (i) rates, terms, and conditions for the short-term debt authorized by this decision; or (ii) costs, expenditures, or capital projects that may be financed with short-term debt authorized by this decision.

5. The Commission may determine in future proceedings (i) whether the rates, terms, and conditions of the short-term debt authorized by this decision are reasonable; (ii) whether the cost of the short-term debt (*e.g.*, interest paid on the

debt) may be recovered in rates; and (iii) whether the utility-related costs, expenditures, and capital projects that are financed with the short-term debt are reasonable and may be recovered in rates.

6. The authority granted by this decision should not become effective until SDG&E has paid the fee of \$293,500 required by Pub. Util. Code § 1904(b).

7. No hearing is necessary.

8. SDG&E is continuously making large cash expenditures for utility-related operations and capital projects. It is foreseeable that SDG&E may have a need to issue \$575 million of short-term debt in excess of the amount authorized by Pub. Util. Code § 823(c) for the purposes identified in Finding of Fact 2.

9. The Commission is the lead agency under CEQA for A.19-01-010.

10. SDG&E should not use the short-term debt authorized by this decision to finance a project until SDG&E has obtained any required environmental review and approval for the project under CEQA.

11. The \$575 million of short-term debt authorized by today's decision will not have a significant effect on the environment, therefore the short-term debt authorized by this decision is exempt from CEQA.

## **ORDER**

### **IT IS ORDERED** that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to issue \$575 million of short-term debt pursuant to Public Utilities Code (Pub. Util. Code) Section 816 et seq. SDG&E shall use the authorized short-term debt only for utility-related purposes. The \$575 million of short-term debt authorized by this order is in addition to the short-term debt that SDG&E may issue pursuant to Pub. Util. Code § 823(c).

2. The short-term debt authorized by this order may be issued at any time, in any increments, not to exceed a total amount of \$575 million issued and outstanding at any one time.

3. San Diego Gas & Electric Company's authority to issue short-term debt pursuant to this order expires on December 31, 2023.

4. This order replaces San Diego Gas & Electric Company's authority to issue short-term debt pursuant to Decision 15-08-015.

5. San Diego Gas & Electric Company may not use the short-term debt authorized by this order to fund dividends, make inter-corporate loans and cash transfers, or pay management fees to its parent company or other affiliates.

6. This order does not approve (i) any rates, terms, and conditions for the short-term debt authorized by this order; or (ii) any utility-related costs, expenditures, or capital projects that may be financed with the short-term debt authorized by this order.

7. Within 30 days from the effective date of this order, San Diego Gas & Electric Company (SDG&E) shall remit a check for \$293,500 pursuant to Public Utilities Code Section 1904 to the Commission's Fiscal Office, Room 3000, 505 Van Ness Avenue, San Francisco, CA 94102. The decision number of this order must appear on the face of the check. The authority granted by this order shall become effective when SDG&E pays the fee required by Section 1904.

8. San Diego Gas & Electric Company (SDG&E) may not use the proceeds from the short-term debt authorized by this order to finance a project until SDG&E has obtained any required review and approval of the project under the California Environmental Quality Act.

9. Application 19-01-010 is closed.

This order is effective today.

Dated \_\_\_\_\_, at Oxnard, California.